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NACS®

# 1987 STATE OF THE CONVENIENCE STORE INDUSTRY

NATIONAL ASSOCIATION
OF CONVENIENCE STORES

# Foreword

The National Association of Convenience Stores has been working for more than 26 years to provide the best in member training, education assistance and services. As the convenience store industry's national representative, we're proud to add this timely report to your Association's list of publications. We feel this report represents a significant contribution to our goal of improving the data base for managerial decision-making.

NACS wishes to thank Arthur Andersen & Co., a recognized authority in the field of retail food surveys, for conducting, compiling and reporting this survey; and Gerke Economics, for writing and editing the narrative copy for this report.

Glen S. DeWeese
Super Stop
Vice-Chairman, Executive
Committee for Education
and Training

State of the Industry 1987
Price: NACS Members — $20.00
Non-members — $30.00

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# Highlights

## Industry Totals

| | |
|---|---|
| Stores | 64.0 Thousand |
| Total Sales | $53.9 Billion |
| Gas Sales | $17.9 Billion |
| Non-Gas Sales | $36.0 Billion |
| Profits Before Taxes | $1,400 Million |
| Number of Employees | 485 Thousand |

## Industry Trends
### (Change from 1985)

| | |
|---|---|
| Stores | + 4.6% |
| Sales | + 4.9% |
| Profits | + 0.9% |

## Industry Averages

| | |
|---|---|
| Sales Per Store Non-Gas | $564,000 |
| Sales Per Store Gas | $467,000 |
| Investment Required for New Urban Store | $668,600 |
| Sales Per Customer | $1.98 |
| Gross Profit Margin Non-Gas | 35.5% |
| Gross Profit Margin Gas | 11.2% |
| Gross Profit Margin Combined | 25.1% |
| Profit Before Taxes | 2.6% |
| Convenience Store Inflation Rate | (.1)% |
| 1986 LIFO Cost Per Store | ($650) |

# About This Study

The NACS "State of the Convenience Store Industry Report" has become a recognized publication that presents reliable and up-to-date industry data. NACS is once again distributing this annual State-of-the-Industry report in the belief that this data base will help increase the quality and improve the accuracy of business decisions throughout the convenience store industry. A total of 135 companies that operate 22,256 store units (approximately 46% of the stores on the NACS membership roster) responded to our request for various types of statistical information. This compares to a sample size of 140 companies and 21,870 stores last year. In 1986, two Group "E" companies reported results by four separate operating units which were classified as Group "D" companies.

Following the procedure instituted in developing data for prior reports, we again mailed a condensed questionnaire to "A" size companies (1-10 stores). An independent profile is presented in a separate section of this report. The survey of companies of larger size was based on the more extensive questionnaire which was revised to obtain additional information.

A word about the statistical validity of our findings. In surveys of this type, responding companies differ from year to year and so direct comparability is never entirely possible. We believe, however, that the conclusions drawn from this survey provide an accurate picture of the State of the Convenience Store Industry and serves as a valid indicator of how it has coped with the climate in which it operated throughout 1986.

In addition, all the figures in this report are averages based on the number and size of the companies participating in the survey. In calculating averages, each company's response and specific survey question has been weighted according to the relationship of its size to the aggregate size of all reporting companies. As a result, the sample size of each response presented herein will vary. Past year's data have been presented to the extent that such information was presented last year or information relating to new questions was available.

Arthur Andersen & Co., long recognized for its expertise in retail food surveys, has assembled all the data in this report. Arthur Andersen & Co. and NACS feel that the sheer number of responses is highly representative of the state of the industry in 1986 and provides the research reliability desired by NACS Members.

Additionally, all company responses have been kept strictly confidential by Arthur Andersen & Co.

**Table of Participation**

**NACS Membership and Services Directory**

**As of 12/31/86**

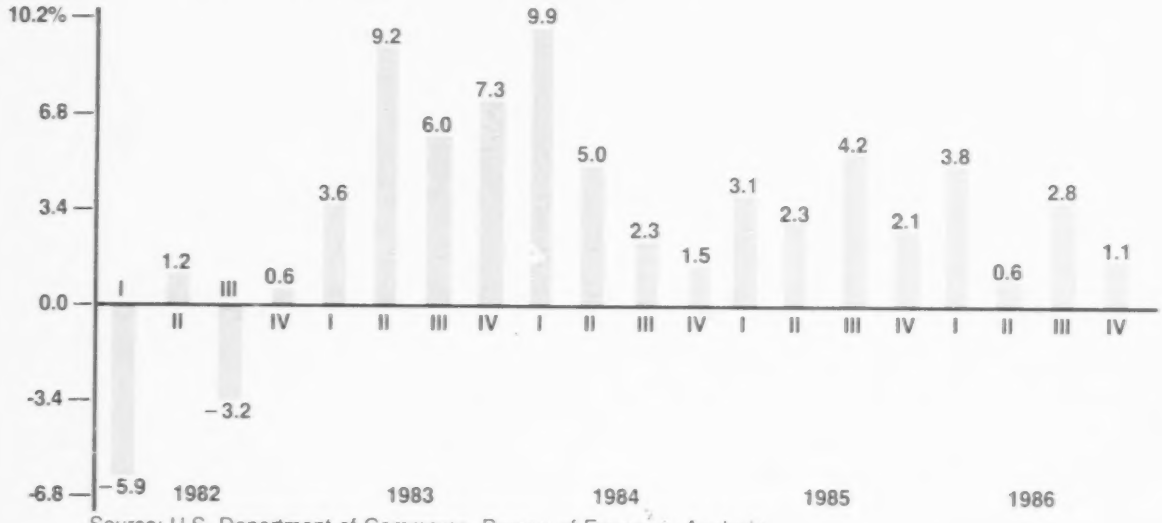
| Classification | Number of Stores | Number of Members | Number of Stores | Number of Useable Responses | Number of Stores |
|---|---|---|---|---|---|
| A | 1-10 | 843 | 3,476 | 72 | 406 |
| B | 11-50 | 364 | 7,679 | 22 | 551 |
| C | 51-200 | 105 | 9,545 | 21 | 2,183 |
| D | 201-500 | 25 | 8,636 | 15 | 5,153 |
| E | Over 500 | 12 | 19,533 | 5 | 13,963 |
| | | 1,349 | 48,869 | 135 | 22,256 |

# Nineteen Hundred Eighty-Six

The economy enjoyed a fourth consecutive year of growth in all four quarters, but the rate of growth in real Gross National Product has slowed. If economic growth is to continue to match even the lackluster pace of 1986, there needs to be improvement in the nation's balance of international trade. There is already evidence of some improvement as producers of many commodities have reported reduced foreign competition.

Despite the deterioration in the trade balance and a slight decline in business fixed investment, total employment grew by more than 2.5 million persons and the unemployment rate fell to 6.7 percent by the end of the year. Inflation fell to its lowest rate in more than two decades. In addition, interest rates were significantly lower and contributed to the strong growth in consumption and residential investment. Real disposable income also witnessed an increase.

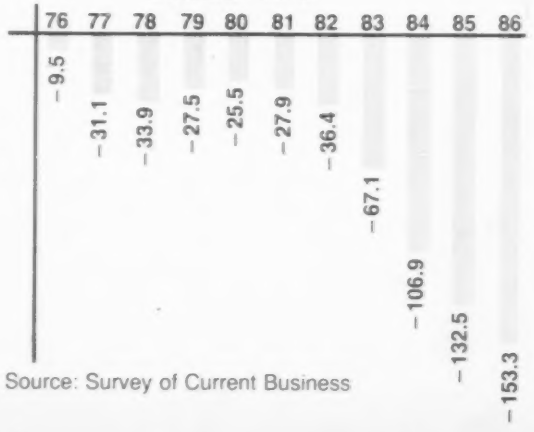
**Fig. 1 — Real Gross National Product Quarterly Percent Change (Seasonally Adjusted Annual Rates)**




Source: U.S. Department of Commerce, Bureau of Economic Analysis

Overall growth in real GNP was affected by a large sectoral problem in 1986. World petroleum prices plunged to the lowest levels since the early 1970's. This depressed domestic employment and investment in petroleum exploration, and the domestic production of petroleum was sharply curtailed. Petroleum imports also dropped early in the year, but imports later in the year surged to the highest levels in six years. This was due partly to an increase in gasoline consumption by motorists who were spending the summer travelling by car in the United States instead of travelling abroad. However, any beneficial effects of the fall in oil prices and curtailment in domestic production are yet to be fully realized. In the future lower energy

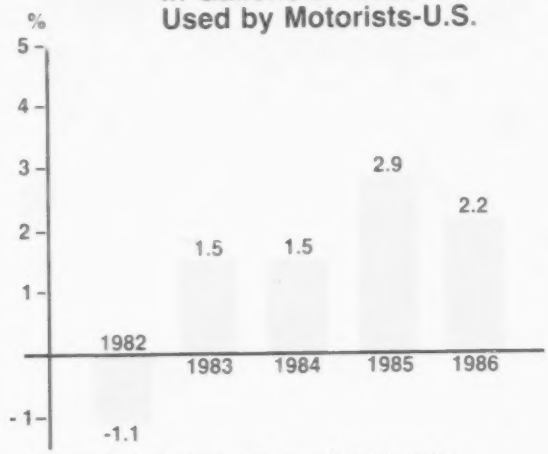
**Fig. 2 — United States Trade Balance (Exports less Imports) 1976—1986 Billions of $**




Source: Survey of Current Business

costs will contribute to lower production costs in many domestic industries which were adversely affected by high energy prices in the 1970's.

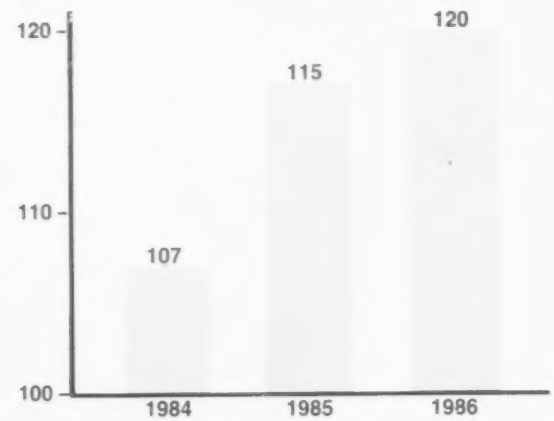
**Fig. 3 — Annual Percent Change in Gallons of Gasoline Used by Motorists-U.S.**




Source: U.S. Federal Highway Administration

(Preliminary Estimate for 1986)

**Fig. 4 — U.S. Business Failures Per 10,000 Businesses**




Source: Dun and Bradstreet

(Data before 1984 no longer comparable)

## Business

The slowing of economic growth and disinflation have continued to directly affect many businesses. The most recent figures compiled by Dun and Bradstreet show that 120 out of every 10,000 businesses failed in 1986. This was a 4.3% increase in the failure rate over 1985 and set another new historical high. Retail trade and wholesale trade businesses showed a 0.5% increase in the total number of failures in 1986 over 1985. More than offsetting the business failures, however, were new business incorporations which increased 4.9% in 1986.

## Workers

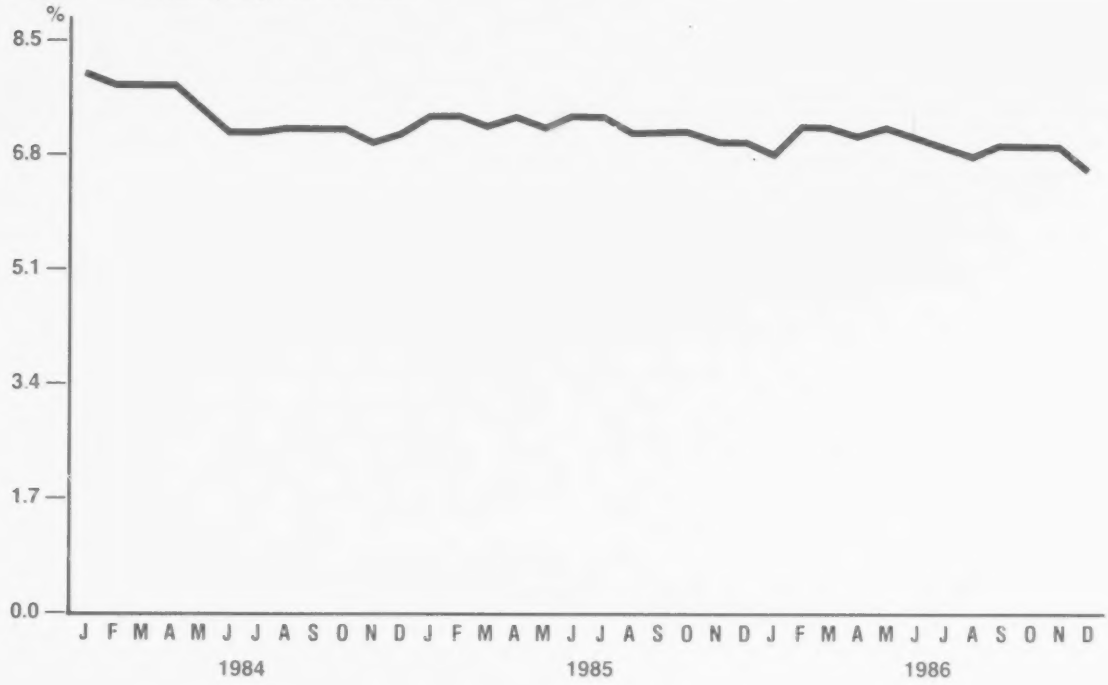
The stable unemployment rate established in the last half of 1985 carried through into 1986 declining by 0.2 of a percentage point to an average of 7.0% for 1986. While the unemployment rate remained relatively high by postwar standards, the employment-population ratio for persons over 16 years of age reached a new postwar peak of 61.3% at the end of 1986. Contributing to the stable employment level was a 5.2% increase in personal income which outpaced the consumer price increase of 1.9% during 1986.

## Prices

Inflation continued to remain under control in 1986. Consumer prices increased by only 1.9%, the smallest increase in more than twenty years. The decline in energy prices played a major role in holding consumer prices down. This can be seen in the consumer price index excluding energy, which increased 3.9% between January and December 1986. This is the same percentage increase as the year before.

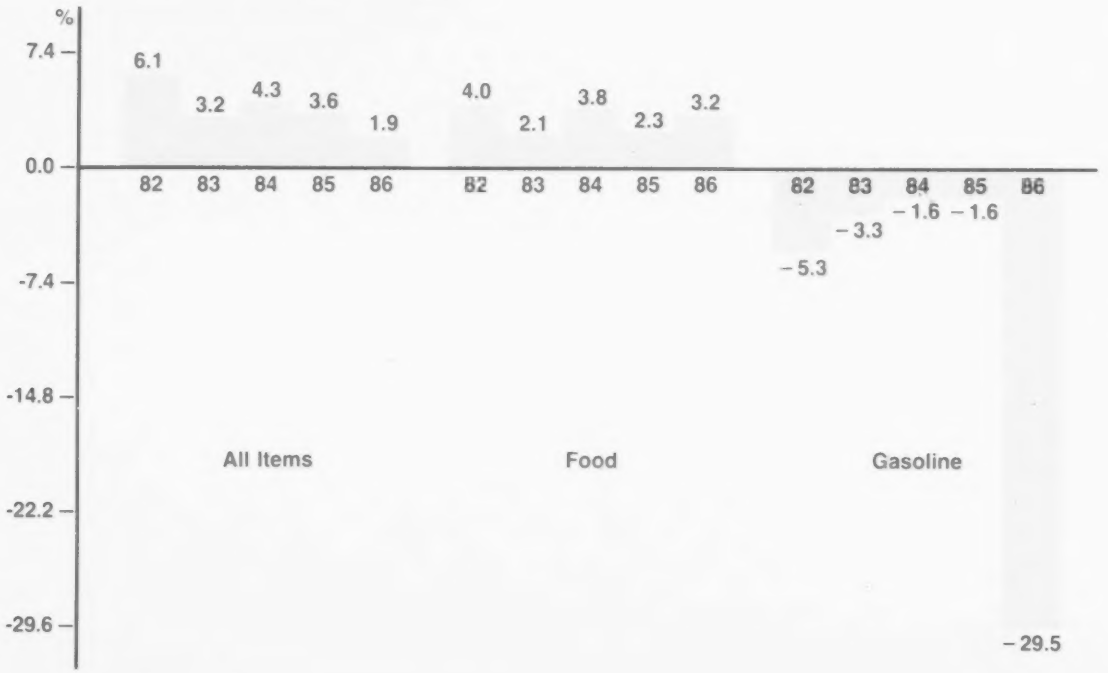
Food continued to be a bargain for the consumer as the annual price increase of 3.2% fell below the 5.2% increase in personal income. However, food prices started to climb in the fourth quarter and in the early months of 1987.

## Fig. 5 — Unemployment Rate




Source: Bureau of Labor Statistics

## Fig. 6 — Inflation (Deflation) Rate Annual Percent Change




Source: Consumer Price Index

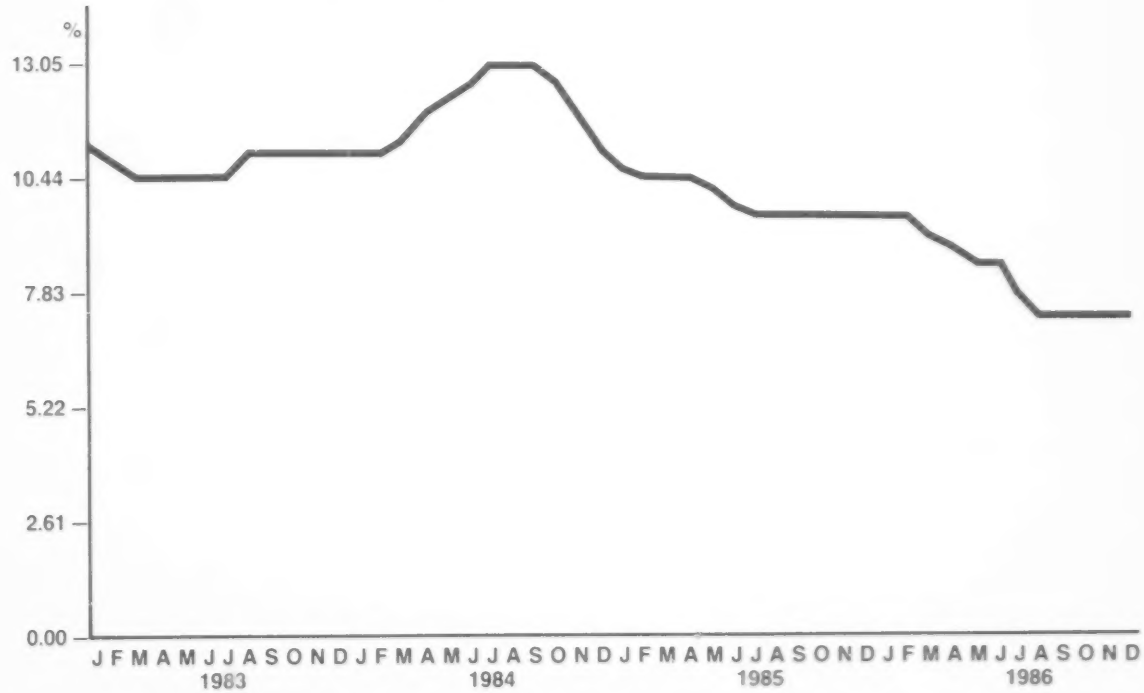
Energy prices, of course, were the big news in 1986. Energy prices declined steeply throughout the year. Just between November of 1985 and April 1986, the spot price per barrel of many types of crude fell close to 25%. This was reflected in the consumer's price for a gallon of gasoline at the gas pumps. However, because of the drastic price reductions, gasoline service stations sales dollars were at a lower level than they were in 1985 even though demand and usage were up.

These price falls may help firms to reverse the adverse productivity effects of the high energy prices of the 1970's. The lower energy costs should contribute to lower production costs in many high energy using industries.

**Finance**

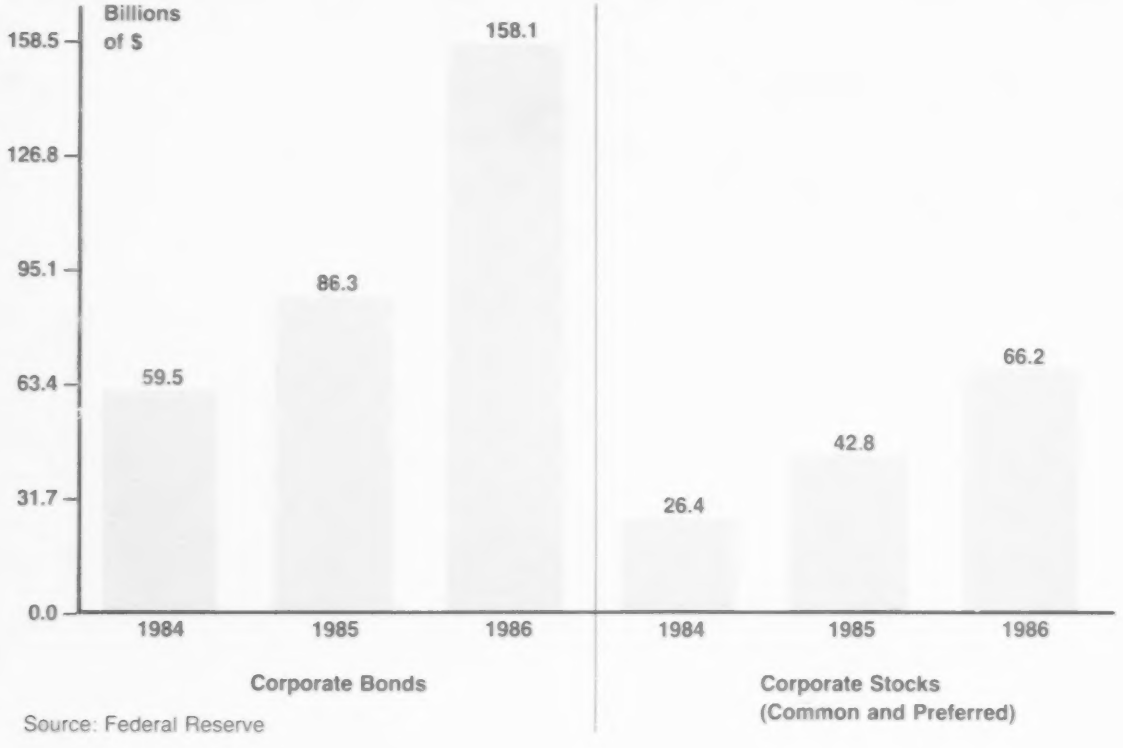
Interest rates continued the descent from a September 1984 level of 13%. The annualized prime rate in 1986 was 8.3%, over 1.5% below the annualized 1985 level and the lowest level in almost ten years. Inflation remained under control and economic expansion moved along at a steady albeit sluggish pace. Lower interest levels are favorable to investment, so the U.S. economy should be able to continue to grow at a moderate pace. Inflation and interest rates may pick up a bit since oil prices will be rebounding, and overall price levels were higher in the early months of 1987. Also, the decline in the exchange value of the dollar means import prices are higher. The Federal Reserve will play a crucial role in the future in maintaining a stable policy.

**Fig. 7 — Prime Rate Charged by Banks U.S. Monthly Average**




Source: Survey of Current Business

**Fig. 8 — Total Corporate Security Issues, Gross Proceeds**

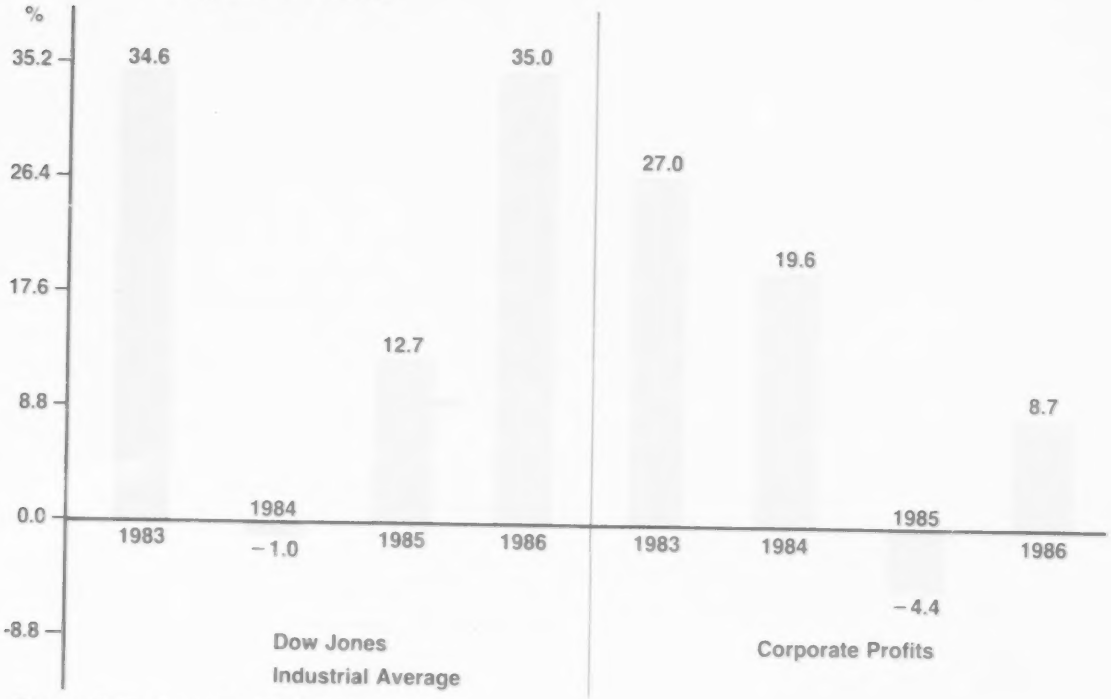



Source: Federal Reserve

Corporate Bond yields, Aaa rating, declined 2.6% during 1986. Businesses continued to respond to lower short-term and long-term rates by increasing bond offerings by more than 83% over the 1985 level, and stock offerings by more than 54%. Corporate acquisitions and mergers continued at a high level of activity.

Consumers, likewise, extended themselves in a similar manner in response to the prospect of continued prosperity. The strong growth in consumer demand and consumption spending was the driving force behind the growth in real GNP. Consumer installment credit outstanding increased 8.0% over the 1985 level. Although this was not the 19.5% increase of the year before, it was the major contributor which kept real GNP growing. Total personal consumption expenditures rose 6.2% during 1986, which was about one percentage point higher than the increase in personal income, and over four percentage points higher than the consumer price increase. The low inflation rate, the increase in real personal income, and significantly lower interest rates contributed to the strong growth in consumption and residential investment.

**Fig. 9 — Annual Percentage Change**
**— Dow Jones Industrial Average**
**— Corporate Profits**




Source: Dow Jones, Federal Reserve

## Sales

Consumer confidence and increased consumption were directly reflected in total retail sales which were 5.2% higher than the 1985 level. Durable goods, up 8.8%, was the strongest factor. New car and truck sales jumped to record levels when domestic motor vehicle manufacturers offered extensive sales - incentive programs before the end of the year in an attempt to reduce an inventory buildup. Non-durable goods also benefitted from increased consumption — up 2.6% overall. Grocery sales were up 5.1%. Restaurant sales, up 8.1% outpaced the 5.3% growth in nominal gross national product. Gasoline service station sales dollars declined 16.9%. The decline is directly related to the decline in gasoline selling prices.

**Fig. 10—Percent Change in Retail Sales 1985-1986**

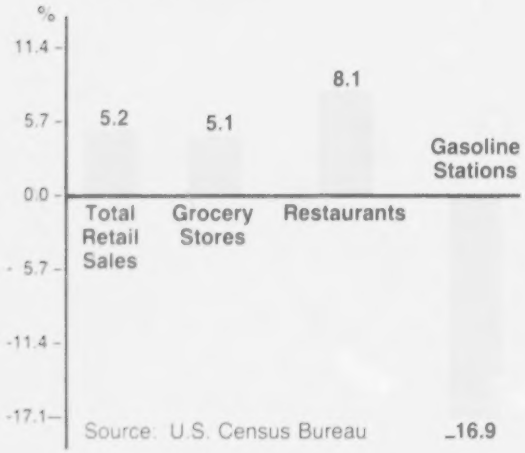
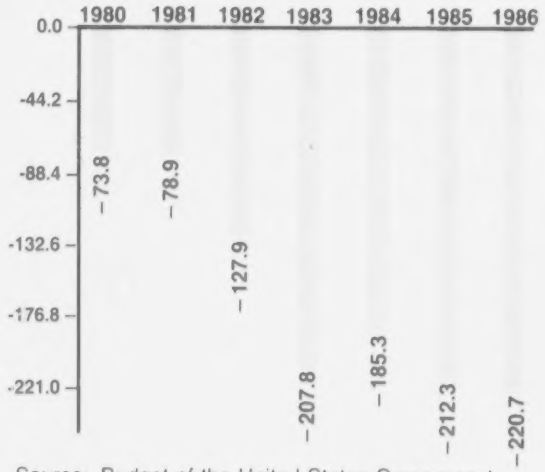



**Fig. 11—Federal Government Budget Deficit Billions of $**




Source: Budget of the United States Government, Fiscal Year 1988

## Change

Nineteen eighty six was a year of major economic structural change. The anticipation of future major tax reforms had profound effects on consumption and investment. Consumers and investors alike first anticipated and then realized with certainty that major tax changes were to take place. This may have had an effect on the level, composition and timing of purchases in 1986, especially in the fourth quarter.

The reality of Tax Reform is now here and new paths will be taken during the adjustment to the changes. There also exist uncertainties about the United States budget deficit and the trade deficit; both of these must be monitored in the years ahead.

The changing times are challenging times for management. Convenience store industry executives are coping with skyrocketing insurance costs, which continue to grow unabated. New storage tank regulations add to the expenses incurred during installation and monitoring of a gasoline system. Land prices for new sites are exceptionally high as convenience store competitors vie for the same piece of property. Likewise, it is getting more difficult to attract and retain employees since there are fewer available employees and more and more competitors for the same labor pool.

The convenience store industry is unlike any other retailing industry. Executives throughout the industry need specialized information to more efficiently manage their businesses. The State of the Convenience Store Industry report is a valuable source of this information.

# Industry Sales and Profits

Total sales for the nation's 64,000 convenience stores were $53.9 billion* in 1986, up 4.9% from 1985. This approximates the 5.2% increase in all retail sales in 1986. Most of the increase in industry sales can be attributed to the addition of new stores, as the industry had a net increase in stores of 4.6%.

Industry gasoline sales declined 1.6% in 1986 to $17.9 billion. This compares to a decline of 16.9% in total gasoline station sales in the U.S. The increase in the percentage of convenience stores selling gas from 55% to 60% in 1986 minimized the effect on the convenience store industry of the total reductions that occurred in gasoline station sales.

In-store sales for the convenience store industry were $36.0 billion in 1986. This represents an 8.4% increase over 1985. The 1986 sales increases for all grocery stores and restaurants were 5.1% and 8.1%, respectively.

Higher operating expenses offset the increase in the industry's sales. Before-tax profits for the convenience store industry increased only 0.9% to $1,400 million and average store profits dropped to $21.9 thousand in 1986 compared to $22.8 thousand in 1985.

Total industry employment stood at 485,000 people. This number includes full-time and part-time store employees, supervisory personnel and corporate staff.

*In compiling the 1986 results, an inconsistency in reporting total non-gas sales was noted in prior years. Total non-gas sales for all prior years were therefore restated to conform to the 1986 results.

**Fig. 12—Total Convenience Store Industry Sales**

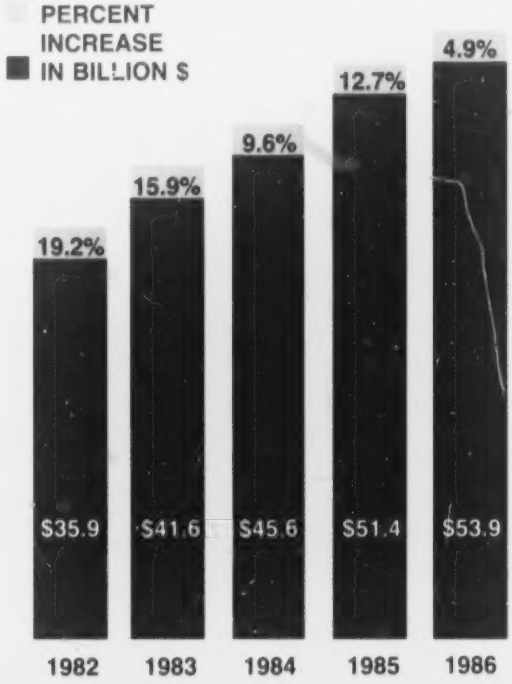



**Fig. 13—Total Non-Gas vs. Gas Sales**

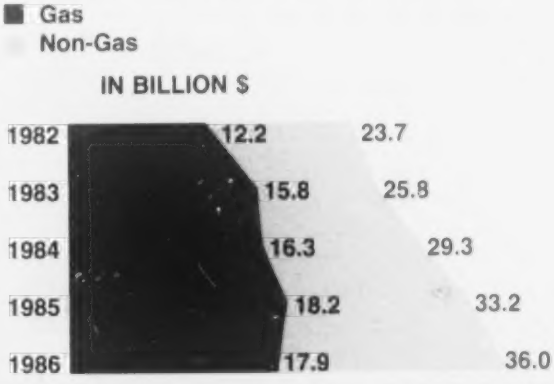



**Fig. 14—Total Convenience Store Industry Profit Before Taxes**

(in millions)

# Sales and Profits Per Store

In our 1985 State of the Industry Report, we presented for the first time, summarized profit and loss information. Figure 16 shows comparative data — 1985 and 1986.

One of the more significant results in 1986 was the increase in the industry's gross profit from 22.8% to 25.1%. All group categories experienced an increase with the Group "B" and Group "C" companies reporting larger percentage increases than Group "D" and Group "E" companies. Leading the industry, Group "B" reported an increase from 16.5% to 20.7%. With the exception of Group "C" companies, the percentage of store operating profit also increased.

A further analysis of gross margin is presented in Figure 18. The gross margin on gas jumped to 11.2% from 7.3% in 1985. The gross margin percent on gas has more than doubled during the last 5 years. The drop in retail gasoline prices is the primary reason for the improvement in gross margins. Non-gas also showed a respectable 10% increase over 1985 with the non-gas gross margin rising to 35.5%.

Offsetting the increase in gross margins was a sizeable increase in both general and administrative and other expenses. The net effect for the industry was a reduction in pretax profit from 2.7% in 1985 to 2.6% in 1986. The Group "B" and "C" companies, however, were able to show an improvement in pretax income from 1.4% to 3.3% and from 1.7% to 2.4%, respectively. For Group "C" companies, this improvement was attributed to an increase in other income. The top performer was the Group "B" companies as their 136% increase resulted from improved operations.

As discussed above, the industry, with the exception of Group "B" companies, was unable to enjoy the improved margins on the bottom line. The Business Costs section of this report presents some startling increases in insurance and taxes and equipment depreciation. Although the "insurance crisis" headlines have recently been relatively quiet, the painful impact on cost was felt in 1986. Also, the sharp upward trend in new store investment is now manifesting itself in sizeable depreciation costs. These business costs are discussed in greater detail in that section of this report.

Converting percentages to dollars, Figure 15 shows that the profit before taxes per store was $21,900 in 1986, down from $22,800 in 1985. Nineteen eighty-five was also less than 1984, the high point in this five year summary. Let's hope that the industry profit per store has now hit bottom.

Average yearly store sales (excluding gas) shown in Figure 17, continued to increase, but unfortunately at a lower rate than recent years. Nineteen eighty-six average yearly store sales of $564,000 were 3.7% above the 1985 sales level. The "D" company average yearly store sales declined by 4.7%. As discussed earlier, a slightly different population comprising the "D" sample may have affected the comparability of sales data from 1985 to 1986.

Profits were generated not from volume, but from inventory management. With minimal inflation in 1986, prices were relatively constant and the industry focused on buying programs and inventory control to increase margins.

Merchandising is a key ingredient for the successful operations of convenience

**Fig. 15 — Profit Before Taxes Per Store**
**(In thousands)**

stores. Merchandising programs have the two-fold objective of increasing store traffic and increasing the average sale per customer.

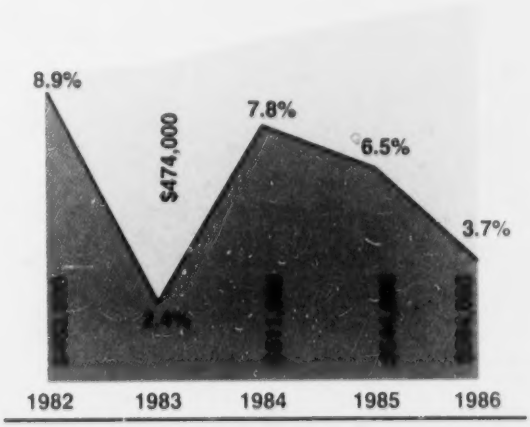
Nineteen eighty-six showed a significant increase in total store traffic, a continuation of the trend from 1982. The average sale per customer in 1986 was $1.98, down from $2.07 in 1985. This demonstrates the success of the marketing plans in increasing store traffic which offset the decrease in average sale per customer.

Average sales per square foot per week, excluding gas, is a new presentation in Figure 20. Group "B" and Group "C" companies exceeded the industry's average of $3.54.

## Fig. 16 —Comparative Profit and Loss Information (1985 and 1986)

| | B | | C | | D | | E | | Avg | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1985 | 1986 | 1985 | 1986 | 1985 | 1986 | 1985 | 1986 | 1985 | 1986 |
| Non-Gas Sales | 36% | 39% | 47% | 56% | 51% | 50% | 50% | 45% | 46% | 48% |
| Gas Sales | 64 | 61 | 53 | 44 | 49 | 50 | 50 | 55 | 54 | 52 |
| Total Sales | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Cost of Goods Sold | 83.5 | 79.3 | 80.4 | 77.6 | 79.9 | 76.7 | 74.3 | 72.3 | 77.2 | 74.9 |
| Gross Profit | 16.5 | 20.7 | 19.6 | 22.4 | 20.1 | 23.3 | 25.7 | 27.7 | 22.8 | 25.1 |
| Direct Store Operating Expense | 12.9 | 14.4 | 14.7 | 17.6 | 15.1 | 16.8 | 18.7 | 19.9 | 16.9 | 18.3 |
| Store Operating Profit | 3.6 | 6.3 | 4.9 | 4.8 | 5.0 | 6.6 | 7.0 | 7.8 | 5.9 | 6.8 |
| Corporate G&A | (2.5) | (3.4) | (3.4) | (3.5) | (2.7) | (4.8) | (4.1) | (4.5) | (3.5) | (4.3) |
| Other Income | .6 | .8 | 1.0 | 2.0 | .8 | 1.6 | 1.5 | 1.6 | 1.2 | 1.7 |
| Other Expense | (.3) | (.5) | (.8) | (.9) | (.6) | (1.4) | (1.2) | (1.9) | (.9) | (1.5) |
| Pretax Profit | 1.4% | 3.3% | 1.7% | 2.4% | 2.5% | 2.0% | 3.2% | 3.0% | 2.7% | 2.6% |

## Fig. 17—Average Yearly Store Sales (excluding gas) and Percentage Increase Over Previous Year




## Fig. 18—Gross Profit Margin as a Percent of Sales

| | | | |
|---|---|---|---|
| 1982 | Average 20.8 | Gas | 4.5 |
| | | Non-Gas | 30.1 |
| 1983 | Average 20.7 | Gas | 5.0 |
| | | Non-Gas | 31.5 |
| 1984 | Average 21.6 | Gas | 6.0 |
| | | Non-Gas | 32.0 |
| 1985 | Average 22.8 | Gas | 7.3 |
| | | Non-Gas | 32.2 |
| 1986 | Average 25.1 | Gas | 11.2 |
| | | Non-Gas | 35.5 |

## Fig. 19—Pretax Profit as a Percent of Sales (includes gas) by Classification Group

| Group | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|
| B | 3.4% | 1.5% | 1.7% | 1.4% | 3.3% |
| C | 2.4 | 2.1 | 1.8 | 1.7 | 2.4 |
| D | 1.8 | 1.7 | 2.3 | 2.5 | 2.0 |
| E | 1.5 | 2.6 | 3.3 | 3.2 | 3.0 |
| Average | 2.0 | 2.2 | 3.1 | 2.7 | 2.6 |

## Fig. 20—Average Sales (Excluding Gas) per week Per Square Foot by Classification Group

| Group | 1986 |
|---|---|
| B | $ 3.67 |
| C | 3.76 |
| D | 3.47 |
| E | 3.49 |
| Average | 3.54 |

## Fig. 21—Average Yearly Store Sales (excluding gas) by Classification Group

| Group | 1982 | 1983 | 1984 | 1985 | 1986 | 1986% Change |
|---|---|---|---|---|---|---|
| B | $365,000 | $370,000 | $408,000 | $397,000 | $411,000 | 3.5% |
| C | 429,000 | 440,000 | 431,000 | 439,000 | 466,000 | 6.2 |
| D | 380,000 | 378,000 | 436,000 | 470,000 | 448,000 | (4.7) |
| E | 498,000 | 511,000 | 542,000 | 581,000 | 619,000 | 6.5 |
| Average | 463,000 | 474,000 | 511,000 | 544,000 | 564,000 | 3.7 |

## Fig. 22—Average Sale Per Customer (excluding gas) by Classification Group

| Group | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|
| B | $2.55 | $2.18 | $2.69 | $2.40 | $2.54 |
| C | 1.81 | 1.89 | 2.04 | 2.22 | 2.02 |
| D | 1.97 | 1.99 | 1.98 | 2.14 | 1.93 |
| E | 2.03 | 2.09 | N/A | 1.91 | 1.96 |
| Average | 1.99 | 2.00 | 2.04 | 2.07 | 1.98 |

## Fig. 23—Average Weekly Store Sales (excluding gas) by Classification Group

| Group | 1982 | 1983 | 1984 | 1985 | 1986 | 1986% Change |
|---|---|---|---|---|---|---|
| B | $7,020 | $7,120 | $ 7,850 | $ 7,640 | $ 7,900 | 3.5% |
| C | 8,250 | 8,460 | 8,290 | 8,440 | 8,970 | 6.2 |
| D | 7,310 | 7,270 | 8,380 | 9,040 | 8,610 | (4.7) |
| E | 9,580 | 9,830 | 10,420 | 11,170 | 11,900 | 6.5 |
| Average | 8,900 | 9,120 | 9,830 | 10,460 | 10,850 | 3.7 |

# Store Development

Store growth showed a net increase of 4.6% for 1986 compared to 6.5% for 1985. The total number of stores in the industry increased from 61,000 in 1985 to 64,000 in 1986. The percentage increase in 1986 is the lowest in the five years presented in Figure 24. This slowdown may be the result of the investment required for a new store.

The sharp upward trend in the investment required for new stores continues unabated. The critical evaluation of existing and potential profitability is a necessity. With the substantial investment required for new stores as shown in Figure 25, the analysis of individual store profitability becomes increasingly important.

As we saw in the Sales and Profits Per Store section, gross margins increased nicely. Although we do not have a breakout of store sales between new stores and existing stores, it is clearly evident annual sales for new stores will need to exceed the averages for existing stores by a sizeable amount to insure the recovery of this investment. Also, increased operating costs offset the gross margin improvements, resulting in a slight decrease in pretax profits. Thus, the industry needs to not only maintain the improved gross margins but also must show substantial increases in new store sales to absorb these costs.

The cost of urban stores increased 12% over the prior year with rural stores showing a 21% increase. This compares to a 20% increase for urban stores in 1985 over 1984 and a 15% increase for rural stores. Since 1982, the new store investment in urban stores has increased 60% compared to 82% for the rural store. Due to the increasingly limited availability of urban locations, rural properties are being aggressively pursued.

The cost of land for the urban store increased 29% and for the rural store, 28%. It is interesting to observe the change in the relationship between land and building costs. For the urban store, the building cost has ranged from 76% to 88% of land cost during the period 1982 through 1985. In 1986, it represented only 57% of land cost, showing a decrease in construction cost for the first time since 1982. For rural stores, building costs have approximated land costs for the last three years, both showing sharp increases in 1986.

## Fig. 24—Store Growth Analysis

| | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|
| New Stores Opened | 10.2% | 7.6% | 7.3% | 8.0% | 6.4% |
| Acquired Stores | 0.8% | 2.7% | 2.9% | 3.6% | 2.6% |
| | 11.0% | 10.3% | 10.2% | 11.6% | 9.0% |
| Stores Sold or Closed | (4.1%) | (4.1%) | (4.8%) | (5.1%) | (4.4%) |
| Net Increase in Stores | 6.9% | 6.2% | 5.4% | 6.5% | 4.6% |
| Actual Number of Stores (000's) | 51.2 | 54.4 | 57.3 | 61.0 | 64.0 |

## Fig. 25—Investment per New Store

| | | 1982 | | 1983 | | 1984 | | 1985 | | 1986 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Urban | Rural | Urban | Rural | Urban | Rural | Urban | Rural | Urban | Rural |
| | Land | $133,400 | $ 57,100 | $147,900 | $ 89,800 | $170,200 | $108,700 | $212,800 | $110,800 | $275,400 | $141,500 |
| | Building | 101,400 | 91,600 | 125,300 | 101,700 | 149,800 | 106,900 | 180,000 | 118,900 | 158,300 | 141,500 |
| Equipment | Fast Food | 17,900 | 11,000 | 14,200 | 7,700 | 14,100 | 9,100 | 19,000 | 16,200 | 19,900 | 18,500 |
| Equipment | Gas | 46,300 | 34,600 | 59,900 | 50,000 | 55,100 | 49,400 | 65,700 | 73,700 | 88,000 | 89,500 |
| Equipment | Non-Gas | 70,700 | 38,800 | 53,600 | 48,000 | 61,000 | 39,300 | 63,300 | 48,100 | 68,300 | 55,300 |
| | Total | 134,900 | 84,400 | 127,700 | 105,700 | 130,200 | 97,800 | 148,000 | 138,000 | 176,400 | 163,300 |
| | Inventory | 47,500 | 39,100 | 50,000 | 45,000 | 46,000 | 42,800 | 56,900 | 43,100 | 58,600 | 50,100 |
| | Total Investment | $417,200 | $272,200 | $450,900 | $342,200 | $496,200 | $356,200 | $597,700 | $410,800 | $668,600 | $496,400 |

Inventory investment for new stores has continued its upward movement. With relatively constant prices in 1986, the increase represents new and additional items being added to inventory levels. These levels will be necessary to support the higher sales per new store that must be achieved.

Equipment costs also show some interesting trends. In 1986, the equipment cost for a new rural store was only slightly less than that for the new urban store. In 1982, the equipment for the new rural store cost 40% less than that for the new urban store. This may be the result of larger rural land parcels and the trend toward upscaling the rural stores. In addition, increased equipment costs are due to increasing government regulations requiring the use of specific gasoline storage equipment which is more expensive than equipment used in the past.

The average square footage of the urban store was 2,845 compared to 2,558 in the prior year. For the rural store, the square footage was 2,560 compared to 2,491 in the prior year. The average square footage of new stores was reported to be 2,711 compared to 2,427 in the prior year. The average lot size of new stores was 25,989 square feet compared to 22,637 square feet for existing stores.

Figure 27, a new presentation this year, shows that 93% of all stores have square footage between 1,000 to 4,000 with 6% of the stores having less than 1,000 square feet and only 1% exceeding 4,000 square feet.

Although the average monthly rent increased for both the new and the existing store, the rent for a new store jumped 19% to $3,321 per month compared to a 10% increase for the existing store. The reported increase in the investment required for a new store is being reflected in the monthly rents. The increase in the average monthly rents for existing stores is probably affected by the cost of new stores, with investors setting rent levels based on the current cost of land acquisition and store construction.

Approximately 26% of existing stores are owned and 74% are leased. For new stores, approximately 33% are owned.

**Fig. 26—Average Monthly Rent**

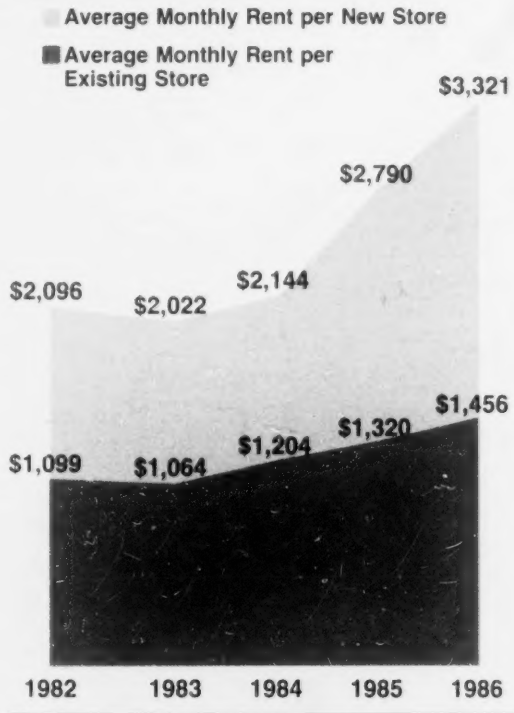
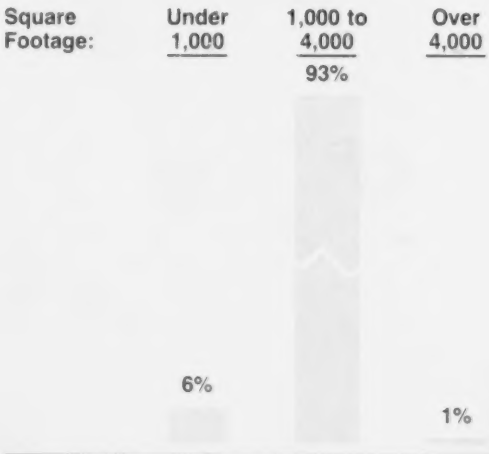



**Fig. 27—Store Square Footage**



# Business Costs

Although gross margins increased, pretax profit decreased slightly to 2.6% in 1986. With the small increase in sales, the industry directed its attention to inventory management to achieve a large increase in gross margins. This section will discuss those expense categories which rose significantly in 1986 and offset the gross margin gains.

Figure 29 presents a summary of selected expense items. As shown, expenses as a percentage of non-gas and total sales, increased for most items listed. Labor costs jumped to 13.8% and 9.2% of non-gas and total sales, respectively. Although interest rates were favorable and relatively constant in 1986, interest expense also showed an increase. It would appear that the industry has increased its total debt with new store investments being a major factor. As is discussed in the "Store Development" section of this report, the investment required for new stores has continued to rise dramatically.

Utility costs as a percentage of sales increased slightly. As shown in Figure 28, the average monthly utility cost per store rose to $1,190, an increase of 7% over 1985. This represents a reduction from the 10% increase experienced in 1985 over 1984.

General and administrative expenses registered an increase from 6.1% to 6.6% of non-gas sales from 1985 to 1986. This reverses the decrease reported in 1985 compared to 1984; and as a percentage of sales, such expenses are back to 1984 levels. Group "B" companies were the only exception, reporting a decrease from 7.3% to 6.3% in 1986 as a percentage of non-gas sales. As previously discussed, the Group "B" companies were the only group to report an increase in pretax profit in 1986.

Advertising expenses, as a percentage of sales, remained constant, showing no change from the 1985 percentage.

Labor, of course, represents the largest single expenditure and the ability to control the average number of employees relative to sales is crucial to cost control. Labor, as shown in Figure 29, registered a sharp increase from 12.6% to 13.8% and from 8.0% to 9.2% of non-gas and total sales, respectively. This increase is also supported by the information reported in Figure 31 which shows the average number of employees per store. All groups reported increases in the average number of store employees per store, the average number of non-store employees (except for Group "D"), and the average number of employees per store. This increase in the

**Fig. 28—Average Monthly Utility Cost per Store**

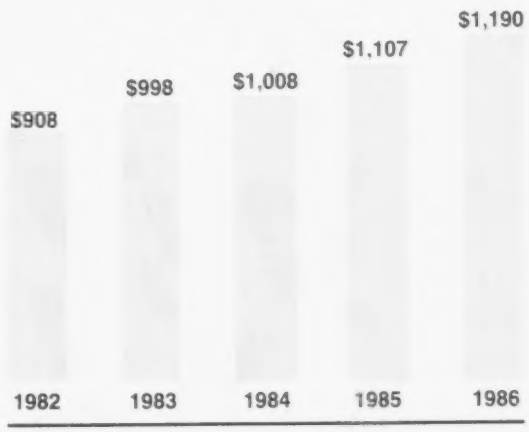



**Fig. 29—Selected Expense Profile as a Percent of Non-Gas and Total Sales**

| | | 1983 | | 1984 | | 1985 | | 1986 | |
|---|---|---|---|---|---|---|---|---|---|
| | 1982 | Non-Gas | Total | Non-Gas | Total | Non-Gas | Total | Non-Gas | Total |
| Labor | 12.9% | 12.7% | 7.5% | 12.2% | 7.0% | 12.6% | 8.0% | 13.8% | 9.2% |
| General & Administrative | 6.2 | 6.6 | 3.6 | 6.6 | 3.9 | 6.1 | 3.6 | 6.6 | 4.3 |
| Utility | 3.1 | 3.2 | 2.0 | 3.0 | 1.8 | 3.1 | 1.9 | 3.2 | 2.2 |
| Advertising | .6 | .4 | .2 | .4 | .3 | .6 | .4 | .6 | .4 |
| Interest Expense | .6 | 1.1 | .5 | 1.0 | .7 | 1.2 | .8 | 1.8 | 1.2 |

## Fig. 30—General and Administrative Expenses by Classification Group

| | As a % of Non-Gas Sales | | | | | As a % of Total Sales | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Group | 1982 | 1983 | 1984 | 1985 | 1986 | 1982 | 1983 | 1984 | 1985 | 1986 |
| B | 5.9% | 8.2% | 6.6% | 5.7% | 8.1% | 3.4% | 3.2% | 3.0% | 2.5% | 3.4% |
| C | 5.5 | 6.0 | 5.9 | 7.3 | 6.3 | 3.3 | 3.3 | 3.0 | 3.4 | 3.5 |
| D | 7.8 | 7.2 | 6.9 | 5.4 | 6.8 | 3.6 | 3.2 | 3.0 | 2.7 | 4.8 |
| E | 5.0 | 6.2 | 6.8 | 6.1 | 6.6 | 3.6 | 4.1 | 5.0 | 4.1 | 4.5 |
| Average | 6.2 | 6.6 | 6.6 | 6.1 | 6.6 | 3.6 | 3.6 | 3.9 | 3.6 | 4.3 |

average number of employees per store corresponds to the increase in the average sales per store. More employees are needed to match the increased sales volume and store traffic since the average sale per customer has remained relatively constant. Further, it appears that more stores are staying open 24 hours a day than in prior years. This, of course, will increase the average number of employees per store and again, hopefully increase average sales per store.

Reported non-gas inventory shrinkage for the industry was 1.3% of non-gas sales in 1986. This continues the upward trend in shrinkage since reported inventory shrinkage in 1985 was 1.0% and 1984 was 0.8%. Group "B" companies reported inventory shrinkage of 0.8%, down slightly from 0.9% in 1985. Group "C" companies reported 1.3%, no change from the prior years; Group "D" companies 0.9% (0.7% in 1985) and Group "E" companies 1.6% (1.1% in 1985).

As discussed previously, insurance and depreciation increases were very substantial. Industry averages for insurance and taxes increased 43% over the reported amounts for 1985, with increases being reported by all group companies. This follows a 17% increase reported in 1985. The "Insurance Crisis" that made the bold print last year has now fully impacted the operating results. As the storm now appears to be over, increases should be moderate and level off in 1987.

Depreciation jumped 34% for the total industry in 1986. This follows a 29% increase reported in 1985. As with insurance and taxes, such increases were experienced by all group companies. It is not surprising to see the continued sizeable increase in depreciation expense due to the significant increase in the cost of new buildings and equipment over the past several years, as reported in Figure 25 in "Investment Per New Store."

## Fig. 31—Employees by Classification Group

| | Average Number of Store Employees Per Store | | | Average Number of Non-Store Employees | | | Average Number of Employees Per Store | | |
|---|---|---|---|---|---|---|---|---|---|
| Group | 1984 | 1985 | 1986 | 1984 | 1985 | 1986 | 1984 | 1985 | 1986 |
| B | 6.7 | 7.1 | 7.7 | .5 | .7 | 1.0 | 7.2 | 7.8 | 8.7 |
| C | 6.9 | 6.4 | 6.8 | .8 | .7 | .8 | 7.7 | 7.1 | 7.5 |
| D | 6.5 | 8.3 | 8.6 | .7 | .6 | .6 | 7.2 | 8.9 | 9.2 |
| E | 5.7 | 5.2 | 5.6 | .4 | .4 | .5 | 6.1 | 5.6 | 6.1 |
| Average | 5.9 | 6.0 | 7.0 | .5 | .5 | .6 | 6.4 | 6.5 | 7.6 |

## Fig. 32—Fixed Store Expenses by Classification Group

| | Insurance and Taxes | | | | | Equipment Depreciation | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Group | 1982 | 1983 | 1984 | 1985 | 1986 | 1982 | 1983 | 1984 | 1985 | 1986 |
| B | $2,100 | $3,300 | $4,100 | $5,100 | $6,500 | $7,200 | $8,000 | $8,500 | $ 9,800 | $13,300 |
| C | 3,200 | 3,300 | 3,900 | 4,400 | 6,700 | 7,000 | 7,900 | 9,100 | 11,000 | 13,700 |
| D | 3,800 | 3,900 | 3,800 | 4,600 | 7,300 | 6,900 | 8,700 | 7,500 | 9,000 | 12,600 |
| E | 2,600 | 3,900 | 4,600 | 5,200 | 7,000 | 3,900 | 8,000 | 8,800 | 12,400 | 15,100 |
| Average | 3,200 | 3,800 | 4,200 | 4,900 | 7,000 | 5,900 | 8,000 | 8,600 | 11,100 | 14,900 |

# Inflation and LIFO

### Consumer Price Index

The inflation rate during 1986 was the lowest in more than two decades. The 1.9% inflation rate in 1986 is down from the 3.6% in 1985. The 1986 inflation rate reflects the stability of energy, interest and food costs. Unfortunately, the good news seems to be over as the inflation rate reported for the first months of 1987 is again on the upswing.

Figure 33 compares the overall rate by quarters as measured by the Consumer Price Index (CPI). The Index assumes a typical "market basket" of goods and services purchased by consumers.

**Fig. 33—Consumer Price Index "Cost of Living" Increases**

| | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|
| 1st Quarter | 3.3% | 0.0% | 4.4% | 4.3% | (1.7%) |
| 2nd Quarter | 6.0 | 5.1 | 4.3 | 4.4 | 2.3 |
| 3rd Quarter | 7.8 | 4.9 | 4.4 | 2.7 | 2.8 |
| 4th Quarter | .4 | 3.5 | 2.9 | 3.6 | 1.1 |
| Average per Year | 6.1 | 3.2 | 4.3 | 3.6 | 1.9 |

The CPI inflation rate is heavily influenced by energy prices, home mortgage rates and other factors that are not part of the convenience store inflation rate which is based on changes in inventory prices.

During 1986, the average price of convenience store products (gas and non-gas) declined 0.1% from 1985. This compares to a 3.1% increase in prices in 1985 and it is below the overall 1.9% increase in consumer prices in 1986. As a further breakdown, the prices of non-gas convenience store products increased 3.6% while gas prices actually declined 6.9% below the 1985 level. The CPI inflation rate for food products in general was 3.2% in 1986 compared to 2.3% in 1985.

This unexpected result in the convenience store products inflation rate helps to explain the increase in gross margins, particularly gas. With decreases in non-gas and gasoline costs relative to sales prices, gross margins will continue to be enhanced.

### LIFO

LIFO is an inventory costing technique which charges the most recent cost of goods to cost of sales and thereby reduces the reported profits in an inflationary period.

Approximately 60% of convenience store companies reporting (representing 67% of all stores) now use LIFO to value their inventories. Some 35% of Group "B" companies, 79% of Group "C" companies, 83% of Group "D" companies, and 25% of Group "E" companies currently are on LIFO.

The inventory inflation rate reported by operators using the LIFO method of inventory was 1.2% *less* than 1985 based on a mixture of fiscal year-ends and different product mixes. Thus, inventory computed under the LIFO method would have approximated FIFO and no cash flow or tax benefits would have been derived in 1986. Nineteen eighty-six was truly an unusual year with respect to the effect of LIFO. As mentioned above, 1987 may again show tax benefits and improved cash flow for companies using the LIFO method.

**Fig. 34—Percentage of Total Companies Using LIFO for Non-Gas Inventory in 1986**

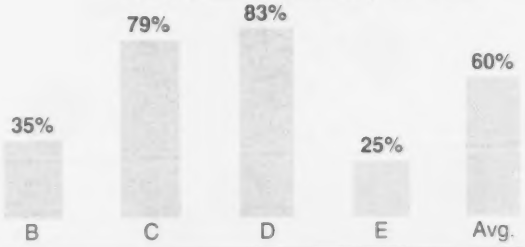



**Fig. 35—Percentage of Companies Using LIFO for Gas Inventory in 1986**

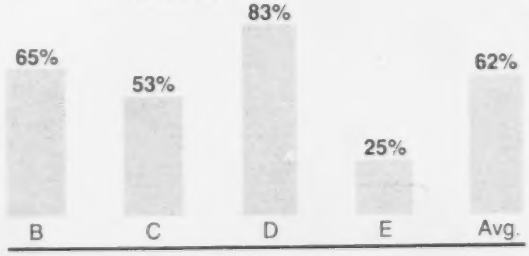


**Fig. 36—Percentage of Stores Selling Gas**

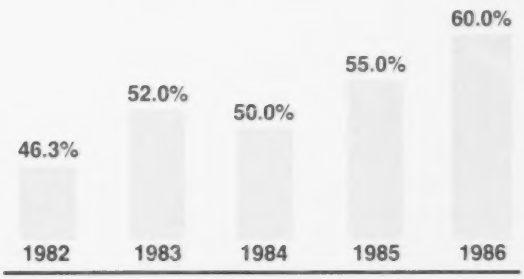



**Fig. 37—Gallons Per Gas Hose**

| Stores | Gallons/Hose |
|---|---|
| B | 116,568 |
| C | 85,716 |
| D | 82,284 |
| E | 72,000 |
| Average | 78,852 |

The average margin per gallon continues to rise. The average gross margin on a gallon of company-owned gasoline increased to 9.7 cents in 1986 from 8.0 cents in 1985. Although not as good as company-owned gasoline, the gross margins on commission pump gasoline increased in 1986 to 5.4 cents per gallon from 4.6 cents per gallon a year earlier. Overall, the average gross margin on gasoline increased in 1986 to 9.5 cents per gallon from the 7.6 cents per gallon in 1985.

The percentage of stores selling gas continued to increase, rising to 60% in 1986 from 55% in 1985. This increase may be attributed once again to the increasing average margin per gallon. As expected, the average percentage of new stores with gas also showed an increase to 78% in 1986 from 69% in 1985. Group "D" and "E" companies reported a sizeable increase, with decreases being reported by Group "B" and "C" companies.

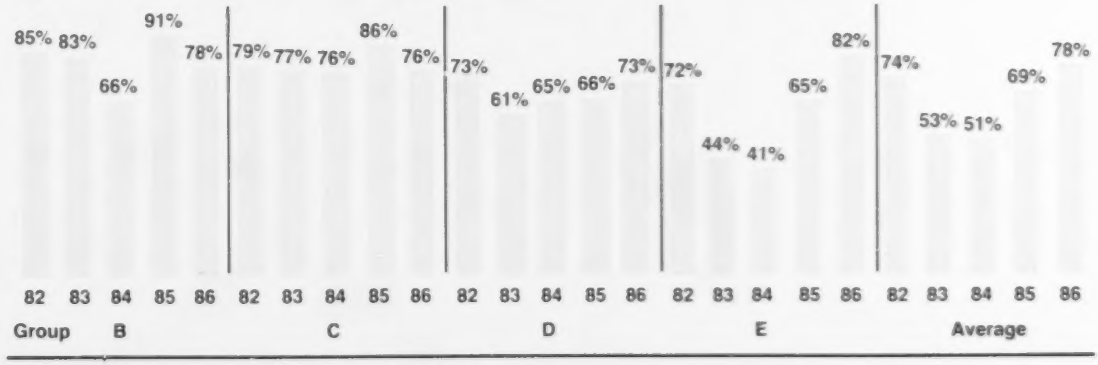
Figure 37 reports for the first time average yearly gallons per gas hose. The industry average for 1986 was 78,852 with the Group "B" companies showing the largest average yearly gallons of 116,568.

Average monthly gallons per store is shown by classification group in Figure 39. Fuel pumped by the average store increased to 46,000 gallons in 1986. This reverses the reduction in gallons reported in 1984 and 1985. Group "B" companies reported 68,000 average monthly gallons, an unusually high increase from 52,000 reported in 1985.

The average selling price per gallon decreased to $0.85 from $1.10 in 1985. This more than offset the increase in gallons sold, thereby resulting in a reduction of the average sale per customer to $7.67 in 1986 from $9.31 in 1985.

Of the total number of stores selling gas, 92% are company-owned and 8% are operated on a commission basis. As reported in prior years, the percentage of company-owned stores selling gas continues to increase, with a decrease in those operated on a commission basis. This is probably attributable to the increasing spread in the margin of company-owned compared to commission pumps. The average number of hoses per store was 7 in

**Fig. 38—Percentage of New Stores with Gas by Classification Group**

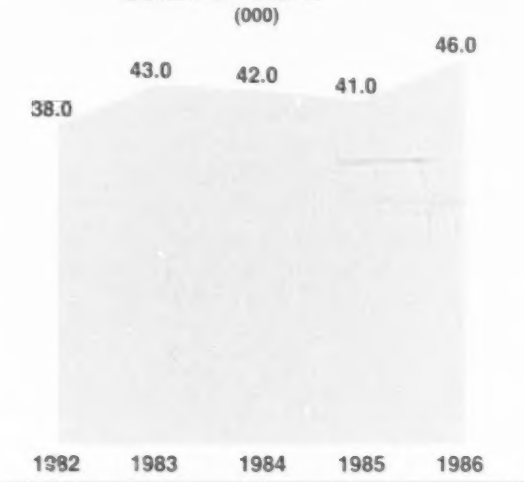


1986 compared to 6 in 1985, and 45% of all stores had canopies, down from the 54% reported in 1985.

Sales of unbranded gasoline continued to rise, representing 56% of total sales compared to 54% in 1985, with branded comprising 44% compared to 46% in 1985. Approximately 25% of all sales were prepay, down from 31% of 1985 and 38% in 1984.

For the third consecutive year, less than 1% of those reporting stated that they had automated dispensing and island card readers. Thus, there has been no reported increase in the use of such equipment and actual use to date has been minimal.

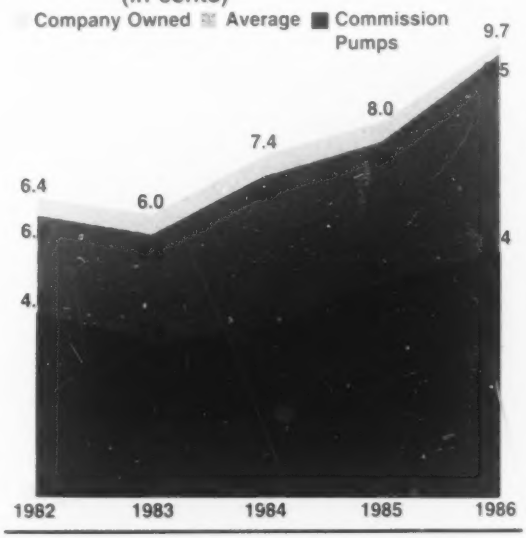
## Fig. 39—Average Monthly Gallons Sold Per Store




## Fig. 40—Average Monthly Gallons Sold Per Store by Classification Group

| Group | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|
| B | 36,000 | 37,000 | 46,000 | 52,000 | 68,000 |
| C | 43,000 | 37,000 | 44,000 | 49,000 | 50,000 |
| D | 37,000 | 49,000 | 52,000 | 45,000 | 48,000 |
| E | 37,000 | 41,000 | 40,000 | 37,000 | 42,000 |
| Average | 38,000 | 43,000 | 42,000 | 41,000 | 46,000 |

## Fig. 42—Average Margin per Gallon (in cents)




## Fig. 41—Percent of Surveyed Convenience Stores Offering the Following by Classification Group:

| | B | | | C | | | D | | | E | | | TOTAL | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1984 | 1985 | 1986 | 1984 | 1985 | 1986 | 1984 | 1985 | 1986 | 1984 | 1985 | 1986 | 1984 | 1985 | 1986 |
| Microwave Equip. | 85% | 92% | 97% | 82% | 94% | 96% | 89% | 74% | 89% | 99% | 99% | 99% | 95% | 93% | 97% |
| Money Order | 35 | 25 | 53 | 48 | 54 | 62 | 83 | 55 | 70 | 81 | 94 | 77 | 76 | 80 | 73 |
| Check Cashing | 42 | 61 | 36 | 51 | 59 | 43 | 72 | 64 | 77 | 94 | 72 | 85 | 84 | 69 | 73 |
| Fountain Drinks | 74 | 82 | 87 | 63 | 85 | 84 | 96 | 69 | 92 | 98 | 99 | 99 | 92 | 95 | 96 |
| Open 24 Hours | 36 | 46 | 55 | 42 | 43 | 51 | 71 | 63 | 73 | 83 | 91 | 88 | 75 | 79 | 80 |
| Prepared Foods | 61 | 55 | 60 | 43 | 35 | 37 | 64 | 42 | 46 | 38 | 85 | 89 | 42 | 70 | 73 |
| Service Deli | 43 | 23 | 40 | 28 | 22 | 25 | 33 | 31 | 27 | 18 | 21 | 29 | 22 | 23 | 29 |
| Film Processing | 9 | 18 | 14 | 6 | 9 | 4 | 4 | 4 | 4 | 0 | 0 | 1 | 1 | 2 | 3 |
| On Premise Bakery | 6 | 4 | 8 | 7 | 8 | 5 | 1 | 9 | 11 | 1 | 1 | 0 | 1 | 3 | 5 |
| Fried Chicken | 8 | 8 | 13 | 5 | 8 | 6 | 4 | 3 | 4 | 2 | 0 | 0 | 3 | 2 | 3 |
| Video Games | 35 | 27 | 23 | 47 | 45 | 47 | 70 | 43 | 40 | 85 | 84 | 89 | 76 | 73 | 61 |
| Automated Tellers | 1 | 1 | 0 | 2 | 2 | 3 | 21 | 12 | 13 | 11 | 14 | 13 | 11 | 12 | 12 |
| Vending Machines | 6 | 4 | 5 | 6 | 4 | 20 | 8 | 5 | 8 | 1 | 1 | 3 | 3 | 3 | 8 |
| Credit Cards | | | 68 | | | 54 | | | 38 | | | 26 | | | 37 |
| Video Rentals | | | 31 | | | 46 | | | 25 | | | 51 | | | 44 |
| Lotteries | | | 34 | | | 21 | | | 18 | | | 38 | | | 28 |
| Debit Cards | | | 5 | | | 5 | | | 7 | | | 17 | | | 11 |
| Seating for Fast Food Customers | | | 16 | | | 3 | | | 2 | | | 7 | | | 5 |
| Other | | | 2 | | | 8 | | | 8 | | | 0 | | | 5 |

# Marketing And In-Store Merchandising

Once again, the top selling products in convenience stores were tobacco, beer and soft drinks. Although tobacco reflected a 2% increase, this appears to be the result of a change in the sample of companies reporting. Beer and soft drinks remained relatively constant. A decrease was reported in publications from 5.4% to 3.7% in 1986, which may be attributed to the restriction or elimination of adult magazines.

Figure 44 presents comparative gross margin percentages by product category. Overall, there was little change in the gross margins of the various products reported. As in 1985, the highest gross margins in 1986 were reported to be in hot beverages and fountain drinks.

Almost all reporting companies have microwave equipment and serve fountain drinks. Compared to 1985, more stores in 1986 stayed open 24 hours, with all Group companies (with exception of "E" which remained relatively constant) reporting this trend. Although video games continued to decline, 61% of all companies reporting in 1986 still have video games.

Several additional services offered by convenience stores were reported in this year's survey. Forty-four percent of all companies reporting now have video rentals, 37% accept credit cards, and 28% handle lottery tickets.

Forty-six percent of the companies reported distribute some products through their own warehouse, up from 37% in 1985. The types of products warehoused varied by company, as shown in Figure 45, with tobacco being the product most often warehoused.

Inventory turnover is presented in Figure 46, a new addition to this year's report. The number of companies responding to this question only approximated 20%, thus, the sample size was very limited. This should be considered when evaluating the turnover data.

**Fig. 43—Percent of Non-Gas Purchases by Product Group—Industry Average**

| | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|
| **Cooler** | | | | |
| Beer (Hot & Cold) | 14.6% | 13.7% | 13.9% | 13.7% |
| Soft Drinks (Hot & Cold) | 11.8 | 11.3 | 10.2 | 10.3 |
| Juices | 0.9 | 0.8 | 1.0 | 1.4 |
| Milk & Milk Products | 6.9 | 6.9 | 6.6 | 5.9 |
| Packaged Deli | 1.1 | 1.3 | 1.2 | 0.8 |
| Produce | 0.3 | 0.4 | 0.4 | 0.6 |
| Eggs | 0.3 | 0.4 | 0.4 | 0.3 |
| **Frozen** | | | | |
| Frozen Food | 0.6 | 0.7 | 0.7 | 0.7 |
| Ice Cream | 1.5 | 1.6 | 1.6 | 1.4 |
| Ice | 1.0 | 0.9 | 0.9 | 1.0 |
| **Room Temp.** | | | | |
| Bread & Cakes | 4.2 | 4.0 | 3.5 | 3.3 |
| Cookies | 0.8 | 0.8 | 0.8 | 0.9 |
| Salty Snacks (Chips, Nuts, etc.) | 3.5 | 3.8 | 3.7 | 3.9 |
| Candy & Gum | 4.9 | 4.9 | 4.9 | 4.9 |
| Groceries | 9.2 | 9.0 | 5.9 | 5.6 |
| Health & Beauty Aids | 3.4 | 3.3 | 3.4 | 3.0 |
| Tobacco | 17.6 | 18.1 | 17.8 | 19.8 |
| Publications | 4.0 | 4.0 | 5.4 | 3.7 |
| Wine/Liquor | 1.1 | 1.3 | 1.3 | 1.4 |
| Automotive Motor Oil | 1.0 | 0.8 | 0.7 | 0.9 |
| General Merchandise | 2.4 | 2.3 | 2.6 | 2.1 |
| **Fast Food** | | | | |
| Sandwiches — Fresh | 1.4 | 1.7 | 1.7 | 1.3 |
| Sandwiches — Frozen | 0.9 | 1.2 | 1.4 | 1.3 |
| Deli Services (excluding sandwiches) | 2.0 | 1.3 | 3.0 | 3.3 |
| Food Cooked On-site | 0.3 | 0.2 | 0.3 | 0.4 |
| Fountain Drinks | 2.1 | 2.4 | 2.6 | 3.6 |
| Frozen Beverages | 0.2 | 0.5 | 0.9 | 0.9 |
| Hot Beverages | 1.4 | 1.2 | 1.6 | 2.7 |
| Other Fast Food | 0.6 | 1.2 | 1.6 | 0.9 |
| **Total Non-Gas Merchandise** | **100%** | **100%** | **100%** | **100%** |

## Fig. 44—Gross Margin Percentage by Product Category — Industry Average

| | 1985 | 1986 |
|---|---|---|
| **Cooler** | | |
| Beer (Hot & Cold) | 27% | 26% |
| Soft Drinks (Hot & Cold) | 32 | 34 |
| Juices | 34 | 38 |
| Milk & Milk Products | 22 | 22 |
| Packaged Deli | 36 | 35 |
| Produce | 26 | 28 |
| Eggs | 23 | 23 |
| **Frozen** | | |
| Frozen Food | 37 | 37 |
| Ice Cream | 39 | 37 |
| Ice | 53 | 54 |
| **Room Temp.** | | |
| Bread & Cakes | 28 | 29 |
| Cookies | 35 | 36 |
| Salty Snacks (Chips, Nuts, etc.) | 35 | 37 |
| Candy & Gum | 41 | 42 |
| Groceries | 35 | 36 |
| Health & Beauty Aids | 37 | 39 |
| Tobacco | 30 | 29 |
| Publications | 21 | 21 |
| Wine/Liquor | 30 | 30 |
| Automotive/Motor Oil | 34 | 36 |
| General Merchandise | 39 | 40 |
| **Fast Food** | | |
| Sandwiches — Fresh | 39 | 39 |
| Sandwiches — Frozen | 39 | 38 |
| Deli Services (excluding sandwiches) | 43 | 47 |
| Food Cooked On-site | 50 | 47 |
| Fountain Drinks | 58 | 61 |
| Frozen Beverages | 44 | 41 |
| Hot Beverages | 61 | 66 |
| Other Fast Food | 45 | 42 |

## Fig. 45—Percentage of Companies Warehousing Specific Product Categories

| | 1985 | 1986 |
|---|---|---|
| **Cooler** | | |
| Dry Grocery | 13% | 18% |
| Health and Beauty Aids | 6 | 14 |
| Dairy | 16 | 16 |
| Frozen Foods | 11 | 12 |
| Fast Foods | 11 | 12 |
| Tobacco | 14 | 21 |
| Soft Drinks | 13 | 16 |

## Fig. 46—Inventory Turnover by Product Category — Industry Average

| | Inventory Turnover Rate |
|---|---|
| **Cooler** | |
| Beer (Hot & Cold) | 20.6 |
| Soft Drinks (Hot & Cold) | 17.8 |
| Juices | 17.9 |
| Milk & Milk Products | 42.2 |
| Packaged Deli | 14.0 |
| Produce | 17.6 |
| Eggs | 30.4 |
| **Frozen** | |
| Frozen Food | 7.9 |
| Ice Cream | 13.2 |
| Ice | 28.4 |
| **Room Temp.** | |
| Bread & Cakes | 53.6 |
| Cookies | 14.4 |
| Salty Snacks (Chips, Nuts, etc.) | 20.1 |
| Candy & Gum | 12.8 |
| Groceries | 7.1 |
| Health & Beauty Aids | 8.2 |
| Tobacco | 15.9 |
| Publications | 12.0 |
| Wine/Liquor | 9.4 |
| Automotive/Motor Oil | 12.9 |
| General Merchandise | 9.8 |
| **Fast Food** | |
| Sandwiches - Fresh | 47.8 |
| Sandwiches - Frozen | 39.6 |
| Deli Services (excluding sandwiches) | 19.5 |
| Food cooked on-site | 58.9 |
| Fountain Drinks | 14.6 |
| Frozen beverages | 9.8 |
| Hot Beverages | 25.5 |
| Other fast food | 39.4 |
| **Total Non-Gas Merchandise** | 11.6 |

# "A" Company Report

The State of the Industry Report specifically focuses on operations of smaller convenience store companies — 1 to 10 stores. This "A" Company Report summarizes the 1986 financial data from 72 operators owning 406 stores. Those surveyed reported key financial and performance indicators pertinent to smaller operations.

We take this opportunity to express our appreciation to everyone who responded to the Association's brief questionnaire. We urge all other operators to participate in future surveys to assure a more complete report for "A" Companies.

Average yearly sales per store, including gas, rose to $1,111,000 from $1,076,000 in 1985, an increase of 3.2%. Average non-gas sales per store, however, decreased to $337,000 in 1986 from $343,000 in 1985. The average non-gas gross margin was 28.4% compared to 29.1% in 1985. The average non-gas gross margin for the Group "B", "C", "D", and "E" companies was 35.5% for 1986 and 32.2% in 1985. Unfortunately, the "A" stores were unable to increase their gross margins. However, the "A" stores did report an increase in average pretax profit, including gas, of 2.5% in 1986 compared to 2.1% in 1985, while the Group "B", "C", "D", and "E" companies reported a slight decrease to 2.6% in 1986 from 2.7% in 1985.

Other income and other expense, as a percentage of total sales, approximated 3.4% and 4.5% in 1986 compared to 1.7% and 1.4% in 1985, respectively.

Twenty-four percent of the companies responding reported having video games, compared to 43% in 1985. This shows the continuing decline of the video game craze.

General and administrative expenses were 4.6% of total sales, an increase from 4.1% in 1985.

### "A" Company Gas Operations

Gross margin per gallon of gasoline increased from 7.6 cents in 1985 to 12.1 cents in 1986, a substantial increase. Ninety-two percent of all "A" stores reporting in 1986 sold gas, up from 88% in 1985.

### Shrinkage

Inventory shrinkage directly affects convenience store profitability and continues to be an area of great concern. Our survey indicated that the "A" Companies' inventory shrinkage increased slightly in 1986. Shrinkage as a percentage of non-gas sales was 1.2% in 1982, 1.0% in 1983, 1.4% in 1984, 1.5% in 1985, and increased to 2.0% in 1986. This appears to be in line with the 1.3% reported in 1986 by the Group "B", "C", "D", and "E" companies.

### LIFO

LIFO is an inventory costing technique which charges the most recent cost of goods to cost of sales and thereby reduces the reported profits in an inflationary period. Companies that do not use the LIFO method report illusionary inventory profits, pay taxes on those illusionary profits and consequently reduce their cash flow.

Approximately 37.4% and 28.1% of those reporting account for gas and food inventories, respectively, on the LIFO basis.

### Figure 47-"A" Sales and Profitability

| | Average Yearly Sales Per Store | | Average Non-Gas Gross Margin | Average Pretax Profit Including Gas |
|---|---|---|---|---|
| | Including Gas | Non-Gas | | |
| 1986 | $1,111,000 | $337,000 | 28.4% | 2.5% |
| 1985 | 1,076,000 | 343,000 | 29.1 | 2.1 |
| 1984 | 881,000 | 357,000 | 26.9 | 2.4 |
| 1983 | 886,000 | 326,000 | 26.9 | 2.4 |

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